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PROVINCIAL PIPE LINE COMPANY

ANNUAL REPORT NINETEEN SIXTY-FIVE

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## 1965 PROGRESS IN BRIEF

### FINANCIAL

	<u>1965</u>	<u>1964</u>	Change from 1964
Revenues - - - - -	\$80,292,000	\$74,983,000	up 7.1%
Expenses - - - - -	\$34,798,000	\$32,998,000	up 5.5%
Earnings - - - - -	\$20,337,000	\$19,202,000	up 5.9%
per share - - - - -	\$4.00	\$3.77	
Dividends - - - - -	\$17,551,000	\$16,787,000	up 4.5%
per share - - - - -	\$3.45	\$3.30	
Additions to plant - - - - -	\$11,172,000	\$ 7,661,000	
Long term debt - - - - -	\$93,663,000	\$90,992,000	

### OPERATING

Deliveries (barrels per day) - - - - -	558,000	504,000	up 10.4%
Barrel miles (millions) - - - - -	241,264	221,691	up 8.8%
Refineries served - - - - -	27	26	

### CHANGES IN PLANT

#### 1965 Additions

34" pipe (miles) - - - - -	72
pump stations - - - - -	None
horsepower - - - - -	7,160

#### Present System

miles of pipe - - - - -	3,553
number of stations - - - - -	35
horsepower - - - - -	252,570

*COVER—34" Pipe moving from Canadian mills in 80-foot lengths for 1965 looping program.*

# INTERPROVINCIAL PIPE LINE COMPANY 1965

*Incorporated by Special Act of the Parliament of Canada, April 30, 1949*

## DIRECTORS

T. S. Johnston	- - - - -	President, Interprovincial Pipe Line Company
D. R. Walker	-	<i>Retired, former Vice-President and Director, Wood, Gundy &amp; Company Limited</i>
T. F. Moore	- - - - -	<i>Vice-President and Director, Imperial Oil Limited</i>
W. Harold Rea	- - - - -	<i>Industrialist</i>
R. H. Reid	- - - - -	<i>President and Managing Director, London Life Insurance Company</i>
J. W. Hamilton	- - - - -	<i>Director, Imperial Oil Limited</i>
R. D. Parker	- - - - -	<i>Consultant, The International Nickel Company of Canada, Limited</i>
D. H. Cooper	- - - - -	<i>Director, Imperial Oil Limited</i>
J. Willis Morgan	- - - - -	<i>Vice-President, The British American Oil Company Limited</i>

## OFFICERS

<i>President</i>	- - - - -	T. S. Johnston
<i>Executive Vice-President</i>	- - - - -	John F. Fairlie
<i>Vice-President</i>	- - - - -	D. R. Walker
<i>Vice-President</i>	- - - - -	J. W. Hamilton
<i>Secretary-Treasurer</i>	- - - - -	J. Blight
<i>General Counsel</i>	- - - - -	R. B. Burgess

## HEAD OFFICE

10830 Jasper Avenue	- - - - -	EDMONTON, ALBERTA
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## EXECUTIVE OFFICE

7 King Street East	- - - - -	TORONTO, ONTARIO
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## TRANSFER AGENTS

<i>The Royal Trust Company</i>	- - - - -	TORONTO, MONTREAL, HALIFAX, WINNIPEG, EDMONTON, VANCOUVER
<i>Chemical Bank New York Trust Company</i>	- - - - -	NEW YORK

## REGISTRARS

<i>Montreal Trust Company</i>	- - - - -	TORONTO, MONTREAL, HALIFAX, WINNIPEG, EDMONTON, VANCOUVER
<i>Bank of Montreal Trust Company</i>	- - - - -	NEW YORK

Annual General Meeting—2:30 p.m., April 13, 1966, Territories Room, Royal York Hotel,  
100 Front St. West,  
Toronto, Ontario





## REPORT TO SHAREHOLDERS

1965 was a year of further important growth and development for Interprovincial and the Canadian oil industry. The large increase of some 8% in the demand for petroleum products in Canada and the change in pattern which occurred in the United States were reflected in the markets served by Interprovincial.

Canadian production of liquid hydrocarbons amounted to 930,000 barrels a day, exceeding 1964 by 9%.

Of this amount Interprovincial transported a total of 203.7 million barrels or 558,000 barrels a day. This was equal to 60% of the total Canadian petroleum production and exceeded 1964 by 10.4%. Three-quarters of this volume was delivered to the fifteen refineries in Canada which lie between Edmonton and Toronto. The remaining one-quarter or 144,000 barrels a day was delivered to twelve refineries in the United States at important markets in Minnesota, Wisconsin, Michigan, Ohio and New York.

Additional pumping equipment and pipe line were placed in operation in accordance with company planning, permitting these deliveries to be made efficiently and economically. During the year steps were taken to increase line operating pressures where this was appropriate between Edmonton and Sarnia. This involved strengthening the system at various points and the effect was to obtain

a marked increase in pipe line capacity with minimum investment, thus achieving a higher over-all productivity for the overall operation. Progress was also made in centralizing the control of operations and in improvements to efficiency which were reflected in reduced operating costs.

The increased volumes and greater efficiency resulted in the following earnings. In 1965 these reached a level of \$20.3 million or \$4.00 per share. This permitted dividend payments totalling \$3.45 per share which compares with \$3.30 in 1964 when \$3.77 per share was earned.

With the availability of new technology in industry generally and in the operation of pipe lines, significant changes are taking place in equipment design, operating standards, communications, control and automation. With these developments in technology, the successful operation of a complex system at high efficiency continues to depend on skilled personnel who are trained to meet the various exigencies. These considerations are matters for constant review so that the company's personnel and investment may be employed most effectively, thus ensuring that Interprovincial remains in the forefront of pipe lines on this continent.

Of particular significance to the company's future is the recent and gratifying exploration activity and success of

the Canadian petroleum producing industry. Important discoveries in northern Alberta and Saskatchewan, combined with the initial development of the Athabasca tar sands which represent the world's largest known oil reserve, suggest that Interprovincial will continue to have a vital and growing role in serving important markets of the oil industry both in Canada and in the United States.

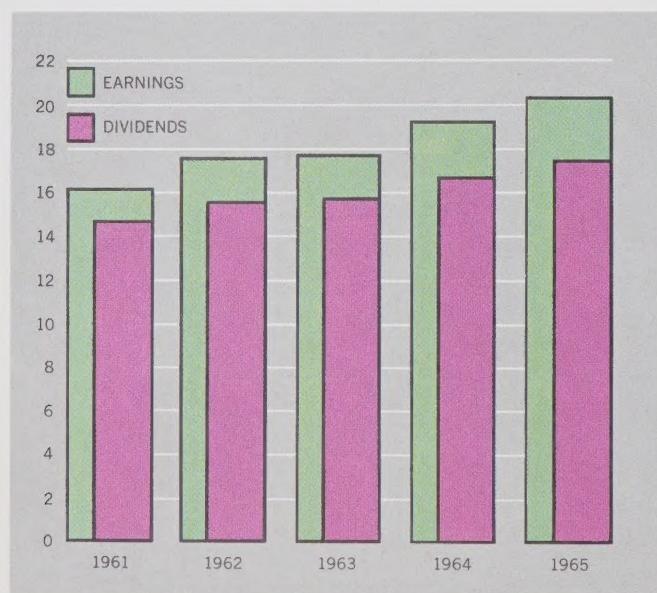
The four new pipe lines, which have been or are in the process of being connected to the Interprovincial system to provide outlets for new producing areas, are a tangible reflection of the confidence of the oil industry in future growth. Interprovincial's pipe line route is strategically located in relation to these developments and the system is in a position to expand to any level required to serve appropriate markets efficiently and economically.

A further matter of possible significance to the future is the company's participation in solids pipe line research and technology. Through active support of this endeavour in conjunction with other companies and the Research Council of Alberta, Interprovincial is in a position to take whatever steps are in its interest, depending on the success of the development work and the requirement for this type of transportation.

## FINANCIAL REVIEW

The Consolidated Financial Statements combine the accounts of Interprovincial Pipe Line Company and its wholly owned subsidiaries. These are Interprovincial Pipe

### EARNINGS AND DIVIDENDS (*millions of dollars*)



Line Patrol Company Limited in Canada and Lakehead Pipe Line Company, Inc. and its subsidiary, Pipe Line Service Company, Inc. in the United States.

### EARNINGS

Net earnings for 1965 were \$20,336,576, equivalent to \$4.00 per share on the capital stock outstanding at year end. Comparable figures for 1964 were \$19,201,652 and \$3.77 per share.

### INCOME AND EXPENSES

Reflecting a 10.4% increase in 1965 crude oil deliveries, the revenue from the company's transportation services amounted to \$79.7 million, an increase of 6.8% over the \$74.7 million revenue in 1964. The company's improved cash position permitted increased repurchases of company bonds at a discount and a larger short term investment of temporary surplus funds. Both of these items improved earnings.

Operating and administrative expenses of \$15.8 million were 11.1% or \$1.6 million over the previous year. The principal item of additional expense was the higher electrical and fuel oil costs. With the system operating at a high throughput to capacity ratio, the pipe line required more energy to pump the additional volume of crude oil.

As more fully explained in Note 2 of "Notes to Financial Statements" entitled "Provision for Income Taxes" the long-standing dispute with the Department of National Revenue on the company's foreign tax credit claim has been placed before the Exchequer Court of Canada for its review and decision. It is hoped that this matter can be successfully concluded in 1966. Full provision of \$1.7 million has been made in the accounts for the total amount of income taxes that are in question.

### DIVIDENDS

In 1965 dividends of \$17.6 million, which represent 86.3% of current year's earnings, were paid to shareholders. This compares with dividends of \$16.8 million or 87.4% of earnings for 1964.

Regular quarterly dividends were paid at the rate of 85¢ per share on March 1, June 1, September 1 and December 1 and on the latter date an extra dividend of 5¢ per share was paid for a total of \$3.45 per share. In 1964 a total of \$3.30 per share was paid.

### SUBDIVISION OF CAPITAL STOCK

It is disappointing to again report that the proposed subdivision of the company's capital stock on a five for

one basis, which was unanimously approved by the shareholders on July 15, 1964, failed to secure final reading in the House of Commons prior to Parliament recessing for its summer vacation on June 30, 1965. Rather than reconvening in the fall, Parliament was dissolved on September 8, 1965 and a federal general election was called. In these circumstances, under Parliamentary rules, it became necessary to resubmit our Petition and Bill. The Petition was filed on November 15, 1965 so that when Parliament opened its current session on January 18, 1966 all formalities had been complied with and the Bill was ready for their consideration. At the time of preparing this report the necessary approval of the Senate had been received and it is now before the House of Commons.

#### CAPITAL STOCK

The following table shows the number of shareholders and shares held as at December 31, 1965 and 1964:

	1965				1964			
	Shareholders	%	Shares	%	Shareholders	%	Shares	%
Canada - - - - -	13,999	90	4,490,035	88	12,617	89	4,464,917	88
United States - - - - -	1,338	9	540,758	11	1,343	10	563,647	11
Other Countries - - - - -	184	1	56,489	1	167	1	58,718	1
	<u>15,521</u>	<u>100</u>	<u>5,087,282</u>	<u>100</u>	<u>14,127</u>	<u>100</u>	<u>5,087,282</u>	<u>100</u>

Following the pattern of past years, which became more pronounced after the June 1964 announcement of the company's proposal to subdivide its capital stock, a further increase in the number of Canadian shareholders took place.

#### FIXED ASSETS

The investment in the carrier system and other physical properties, at original cost at the end of 1965 and 1964, was as follows:

	1965	1964
Land - - - - -	\$ 813,971	\$ 711,684
Right-of-way - - - - -	3,948,139	3,914,738
Crude oil pipe line - - -	244,263,816	236,780,168
Pumping equipment,		
buildings and tanks - -	80,606,813	77,122,582
Incomplete construction - -	1,042,864	1,494,244
	<u>\$330,675,603</u>	<u>\$320,023,416</u>

Details of the 1965 capital additions are shown in the Construction Section.

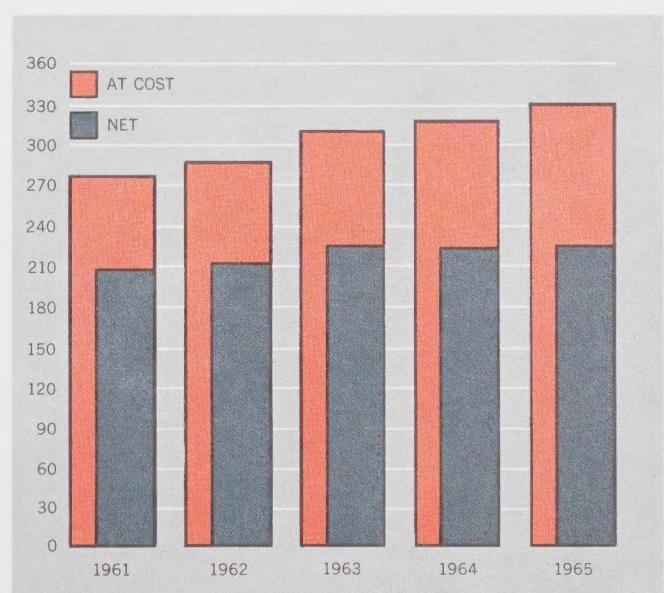
#### WORKING CAPITAL

From the "Consolidated Statement of Source and Application of Funds" it will be noted that the deficit working capital of the company was reduced from \$18.6 million in 1964 to \$11.9 million in 1965. A contributing factor in this reduction was the issuance of \$12 million First Mortgage and Collateral Trust 5½% Series E Bonds on April 1, 1965. By continuing to utilize the sizeable monthly cash flow it now appears that financial requirements in 1966 can be met without resorting to long term financing.

#### OPERATIONS

The volume of oil received into the system from producing areas in Canada and the United States increased 11.0% to 205.0 million barrels. This is equal to about 60% of all crude oil and natural gas liquids produced in Canada during 1965.

FIXED ASSETS (*millions of dollars*)



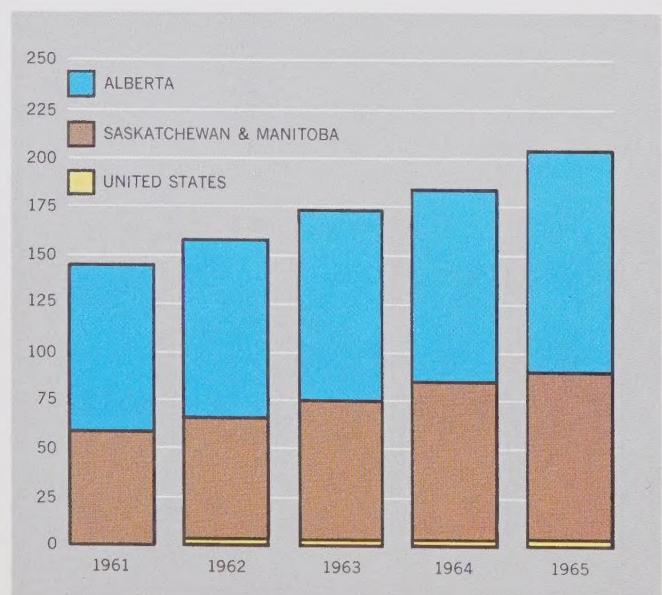
In Alberta, oil received at Interprovincial's major terminals at Redwater, Edmonton and Hardisty, increased 15.4% to 114.6 million barrels. At other important receiving points for Saskatchewan, Manitoba and North Dakota crudes, receipts continued to advance but at a somewhat slower pace.

	RECEIPTS (Millions of Barrels)		
	1965	1964	% Increase
Alberta - - - - -	114.6	99.3	15.4
Saskatchewan - - - - -	83.5	79.2	5.5
Manitoba - - - - -	5.1	4.6	11.6
North Dakota - - - - -	1.8	1.6	9.0
	<u>205.0</u>	<u>184.7</u>	<u>11.0</u>

Oil deliveries to the three principal areas served, Western Canada, the U.S. Mid-West and Ontario, increased by 10.4% to 203.7 million barrels. The 1.3 million barrel difference between oil received and oil delivered was used primarily to fill the 72 miles of 34" diameter pipe installed during the year.

The increase in deliveries to Ontario exceeded normal growth reflecting the high level of economic activity in that province. Interprovincial's second largest delivery area—that part of the United States served by the pipe line system—increased its oil requirements to 52.5 million barrels. The economic attraction of Canadian crude in these established markets accounts for the rise in demand. Over half of the growth in Western Canada resulted from deliveries at Edmonton to connecting pipe lines that serve

#### SOURCE OF CRUDE OIL RECEIPTS (*millions of barrels*)



the Pacific coast regions of Canada and the United States. The strategic location of the Redwater to Edmonton section of the pipe line system in relation to new crude oil production in the Lesser Slave Lake area provided increased throughput.

Growth in barrel-miles of 8.8% was an improvement over that experienced in 1964, but below the percentage increase in total deliveries. This reflects the higher rate of increase in shorter haul deliveries to Western Canadian and U.S. Mid-Western markets.

	DELIVERIES (Millions of Barrels)		
	1965	1964	% Increase
Western Canada - - - - -	38.7	33.1	17.2
United States - - - - -	52.5	46.9	11.9
Ontario - - - - -	112.5	104.5	7.6
	<u>203.7</u>	<u>184.5</u>	<u>10.4</u>

Total deliveries to the marketing areas increased by 54,000 barrels per day in 1965. During September, average monthly deliveries exceeded 600,000 barrels per day which established a new record for the company.

## CONSTRUCTION

Capital expenditures of \$11.2 million increased the total investment in the carrier system to \$330.7 million. A major portion of the 1965 investment in plant was used to construct 72 additional miles of 34" pipe line. This increased the total length of the third line between Regina, Saskatchewan and Superior, Wisconsin to 329 miles which now spans half the distance between these points.

Three pumping units were added at established pump station locations, increasing the total installed power in the system to over a quarter-of-a-million horsepower. In Manitoba a 2,500 horsepower electrically powered unit was installed at Cromer station along with a similar unit at Glenboro. At Deer River, Minnesota the seventh unit, a 2,160 horsepower diesel pumping unit, was added. At these locations the 1965 additions represent the first elements of pumping equipment designed for the ultimate operation of the third pipe line.

During the year, a program of retesting sections of the pipe line system was initiated. Experience had shown that the pipe is fully capable of operating at higher stress levels and tests confirmed that pressures up to the maximum permitted by established codes are completely safe. Necessary arrangements prior to conducting pipe line strength tests are complex and meeting delivery commitments while

tests are in progress add a further complication to this undertaking. Parts of the 24" line in Western Canada and the 26" and 30" lines in the United States where tests were completed this year are now qualified to operate at higher pressures. This program resulted in substantial increases in capacity in the nature of 5% to 6% without additional capital expenditures. The program of retesting will be continued in 1966 along with other efforts aimed at maximizing the utilization of both the new and existing elements of plant.

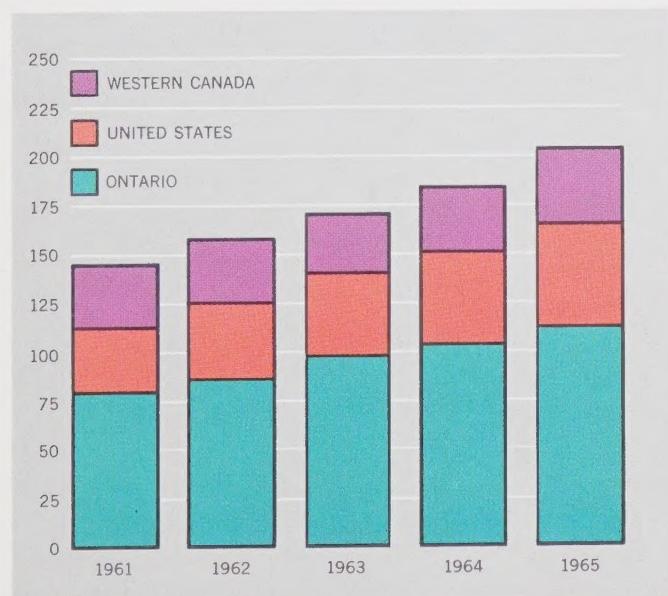
Automation of diesel stations by the addition of equipment that includes local push-button control was continued. Equipment of this nature was ordered for Regina and Clearbrook stations and will become operational early in 1966. The improvement in efficiency which results from this undertaking will manifest itself in the form of reduced operating costs.

## FORECAST CONSTRUCTION—1966

Current plans for 1966 construction presently indicate capital expenditures of \$2.2 million for additional power at Gretna, Manitoba pumping station and the construction of a new electric pump station near Manistique, Michigan on the 30" Superior to Sarnia line. This new pumping facility which was seriously considered for the 1965 program will be completed late in 1966.

The low level of investment anticipated for 1966 clearly reflects the capacity gains in the system resulting from increased allowable operating pressures.

CRUDE OIL DELIVERIES (*millions of barrels*)



The capacities set forth in the following table for various sections of the system indicate the results of retesting and upgrading sections of the pipe line system as well as the planned 1966 construction program:

Edmonton-Regina	- - - - -	383,000 bbls. per day
Regina-Cromer	- - - - -	428,000 bbls. per day
Cromer-Gretna	- - - - -	586,000 bbls. per day
Gretna-Superior	- - - - -	548,000 bbls. per day
Superior-Sarnia	- - - - -	442,000 bbls. per day
Sarnia-Port Credit	- - - - -	229,000 bbls. per day
Westover-Buffalo	- - - - -	45,000 bbls. per day

## PERSONNEL AND WAGES

The company's employees in Canada and the United States, through their employee organizations, negotiated general wage increases of 3.4% and 4.5% respectively. Revisions to the schedule of wages were in keeping with the patterns that developed in the Canadian and United States oil industry.

A new Retirement Plan for Canadian employees was introduced. Amendments made effective January 1, 1966 integrated contributions and benefits with the Canada Pension Plan. The new plan provides benefits based on career as well as on terminal earnings for both past and future service. Other improvements pertained to provisions for early retirement and the vesting of company contributions in the employee at an earlier date.

The Pension Plan affecting Lakehead employees is currently under review.

Training programs which are an important factor contributing to the company's success were expanded during 1965. Under the Educational Refund Plan, twenty-six reimbursements were made to employees upon successful completion of training courses.

For the sons and daughters of employees the Higher Educational Awards Plan was of assistance to eleven students who qualified for the award during the year and three who continued scholarships granted in prior years.

An expanding pipe line operation which serves a large number of customers with crude from many producing areas is complex and demanding. The company's performance reflects the sincere, earnest and effective contribution of all its employees. Management wishes to again record its appreciation of these endeavours and their importance to the company's success in 1965.

*T.S. Solusko*  
President





# SYSTEM MAP

## INTERPROVINCIAL PIPE LINE COMPANY



**CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS**  
*(expressed in Canadian currency)*

	<i>For the Years Ended December 31</i>	
	1965	1964
<i>Funds were provided from the following sources:</i>		
Net earnings for the year	\$20,336,576	\$19,201,652
Add—Non-cash charges and (credits) to earnings:		
Depreciation	10,431,102	10,174,196
Deferred income taxes (Note 3)	1,642,127	1,714,430
Deferred investment tax credit, net (Note 4)	121,354	(141,565)
Other	116,831	39,839
Funds provided from operations	32,647,990	30,988,552
Series E bonds issued	12,000,000	—
Capital stock issued	—	187,525
Other transactions, net	26,738	(161,028)
	<u>44,674,728</u>	<u>31,015,049</u>

*Funds were expended for the following:*

Dividends	17,551,123	16,786,590
Additions to carrier system	11,172,426	7,661,468
Long term debt retired or included in current liabilities	9,328,598	9,081,287
	<u>38,052,147</u>	<u>33,529,345</u>
<i>Increase (decrease) in working capital</i>	<i>6,622,581</i>	<i>(2,514,296)</i>
<i>Working capital deficit January 1</i>	<i>18,571,691</i>	<i>16,057,395</i>
<i>Working capital deficit December 31</i>	<i>\$11,949,110</i>	<i>\$18,571,691</i>

*The accompanying notes are part of the financial statements.*

**INTERPROVINCIAL PIPE LINE COMPANY** and subsidiary companies

**CONSOLIDATED STATEMENT OF EARNINGS**

(expressed in Canadian currency)

	<i>For the Years Ended December 31</i>	
	<b>1965</b>	<b>1964</b>
<i>Income:</i>		
Transportation revenue - - - - -	\$79,718,341	\$74,667,554
Profit on purchase of company bonds for sinking fund - - - - -	322,321	190,419
Income from short term investments - - - - -	180,556	56,900
Sundry income - - - - -	71,022	68,076
	<u>80,292,240</u>	<u>74,982,949</u>
<i>Expenses:</i>		
Operating and administrative expenses - - - - -	15,833,125	14,253,280
Taxes, other than income taxes - - - - -	4,097,944	4,240,524
Provision for depreciation - - - - -	10,431,102	10,174,196
Interest on long term debt - - - - -	4,006,192	4,037,262
Loss on foreign exchange (Note 6) - - - - -	430,301	293,035
	<u>34,798,664</u>	<u>32,998,297</u>
<i>Earnings before income taxes</i> - - - - -	<u>45,493,576</u>	<u>41,984,652</u>
<i>Provision for income taxes:</i>		
Current (Note 2) - - - - -	23,393,519	21,210,135
Deferred (Note 3) - - - - -	1,642,127	1,714,430
Deferred investment tax credit, net (Note 4) - - - - -	121,354	(141,565)
	<u>25,157,000</u>	<u>22,783,000</u>
<i>Net earnings for the year</i> - - - - -	<u>\$20,336,576</u>	<u>\$19,201,652</u>
<i>Net earnings per share</i> - - - - -	<u>\$4.00</u>	<u>\$3.77</u>

**CONSOLIDATED STATEMENT OF RETAINED EARNINGS**

(expressed in Canadian currency)

	<i>For the Years Ended December 31</i>	
	<b>1965</b>	<b>1964</b>
<i>Balance at January 1</i> - - - - -	\$42,265,285	\$39,850,223
Net earnings for the year - - - - -	20,336,576	19,201,652
	<u>62,601,861</u>	<u>59,051,875</u>
Dividends - - - - -	17,551,123	16,786,590
<i>Balance at December 31</i> - - - - -	<u>\$45,050,738</u>	<u>\$42,265,285</u>

The accompanying notes are part of the financial statements.

INTERPROVINCIAL PIPE LINE COMPANY *and subsidiary companies*

**CONSOLIDATED BALANCE SHEET** (*expressed in Canadian currency*)

**ASSETS**

	<i>As at December 31</i>	
	<b>1965</b>	<b>1964</b>
<i>Current Assets:</i>		
Cash - - - - -	\$ 848,412	\$ 542,573
Deposits with bondholders' trustees and banks for interest and sinking fund payments - - - - -	676,611	739,703
Short term investments, at cost which is equivalent to market - - - - -	1,111,957	400,000
Accounts receivable—		
Transportation charges - - - - -	5,468,589	4,577,698
Other - - - - -	189,625	175,174
Inventories—		
Crude oil, at quoted market price - - - - -	—	348,364
Materials and supplies, at cost - - - - -	963,160	956,859
Prepaid expenses - - - - -	241,193	262,994
	<b>9,499,547</b>	<b>8,003,365</b>
<i>Other Assets and Deferred Charges:</i>		
Mortgages receivable - - - - -	47,316	59,499
Unamortized premium and expense on long term debt (net) - - - - -	238,416	148,772
Unamortized leasehold improvements - - - - -	110,752	126,179
Other deferred charges - - - - -	282,550	370,406
	<b>679,034</b>	<b>704,856</b>
<i>Fixed Assets:</i>		
Carrier system and other physical properties, at cost - - - - -	330,675,603	320,023,416
Less—Accumulated depreciation - - - - -	105,910,686	95,898,271
	<b>224,764,917</b>	<b>224,125,145</b>
	<b>\$234,943,498</b>	<b>\$232,833,366</b>

**AUDITORS' REPORT**

To the Shareholders of INTERPROVINCIAL PIPE LINE COMPANY:

We have examined the consolidated balance sheet of Interprovincial Pipe Line Company and subsidiary companies as at December 31, 1965 and the consolidated statements of earnings and retained earnings for the year ended on that date. Our examination was made in conformity with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings and retained

## LIABILITIES

	<i>As at December 31</i>	
	1965	1964
<i>Current Liabilities:</i>		
Accounts payable - - - - -	\$ 1,589,300	\$ 1,384,450
Bond interest payable - - - - -	1,279,648	1,307,039
Accrued income and other taxes - - - - -	13,912,759	14,619,160
Bond sinking fund payments due within one year (Note 1) - - - - -	4,666,950	9,264,407
	21,448,657	26,575,056
<i>Long Term Debt (Note 1)</i> - - - - -	93,662,937	90,991,535
<i>Provision for Employee Retirement Benefits</i> - - - - -	227,871	211,676
<i>Deferred Income Taxes (Note 3)</i> - - - - -	27,419,127	25,777,000
<i>Deferred Investment Tax Credit (Note 4)</i> - - - - -	1,662,219	1,540,865
<i>Shareholders' Equity:</i>		
Capital stock (Note 5)—		
Authorized—\$200,000,000 divided into 40,000,000 shares, par value \$5 each		
Issued—5,087,282 shares - - - - -	25,436,410	25,436,410
Contributed surplus—premium on shares - - - - -	20,035,539	20,035,539
Retained earnings, per accompanying statement - - - - -	45,050,738	42,265,285
	90,522,687	87,737,234

Approved on Behalf of the Board:

*T.S. Soluske* Director

*A.Q. Waay* Director

The accompanying notes are part of the financial statements.

\$234,943,498    \$232,833,366

earnings present fairly the financial position of the companies as at December 31, 1965 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination also included the accompanying consolidated statement of source and application of funds for the year ended December 31, 1965 and, in our opinion, it presents fairly the changes in working capital for the year.

EDMONTON, February 2, 1966.

*Chartered Accountants*

INTERPROVINCIAL PIPE LINE COMPANY *and subsidiary companies*

**NOTES TO FINANCIAL STATEMENTS**

**1. LONG TERM DEBT:**

Long term debt of \$93,662,937 at December 31, 1965 comprises First Mortgage and Collateral Trust Bonds of Interprovincial Pipe Line Company, authorized with no fixed limitation, issued and outstanding as follows:

	Series A 3½% due January 1 1970	Series B 3½% due January 1 1970	Series C 4% due April 1 1973	Series D 3½% due April 1 1974	Series E 5½% due April 1 1985
	(in thousands of dollars)				
	(Canadian dollars)	(United States dollars)			(Canadian dollars)
Issued	\$37,000	\$35,000	\$60,000	\$30,000	\$12,000
Redeemed	20,812	19,688	21,832	9,414	—
Bonds outstanding	16,188	15,312	38,168	20,586	12,000
<i>Less:</i>					
Bonds purchased and held for sinking fund	1,156	1,187	1,584	818	—
Other sinking fund payments due within one year	1,156	1,001	1,583	682	—
	2,312	2,188	3,167	1,500	—
Amount due after 1966	\$13,876	\$13,124	\$35,001	\$19,086	\$12,000
Amount due after 1966 in terms of Canadian dollars at historical rates of exchange	\$13,876	\$14,502	\$34,572	\$18,713	\$12,000
					\$93,663

Bond sinking fund requirements for 1967 to 1970 are as follows:

	Series A (Canadian dollars)	Series B (United States dollars)	Series C (in thousands of dollars)	Series D	Series E (Canadian dollars)
1967	\$2,312	\$2,188	\$3,334	\$1,584	\$—
1968	2,312	2,188	3,542	1,668	330
1969	9,252	8,748	3,750	1,771	330
1970	—	—	3,750	1,874	330

**2. PROVISION FOR INCOME TAXES:**

Bond interest paid to the company by the United States subsidiary is subject to a 15% withholding tax which the company claims as a foreign tax credit for Canadian income tax purposes. The Canadian income tax authorities have issued assessments for the years 1960 through 1964 which disallowed much the greater part of the foreign tax credit claimed in respect of such withholding tax.

Counsel has advised that the assessments are ill founded in law and the company has filed Notices of Objection thereto. The assessments in respect of the years 1960 and 1961 have already been appealed to the Exchequer Court of Canada and hearing is awaited.

Pending determination of the issue the company has made full provision for the income taxes involved and, in order to avoid possible interest penalties, has paid such taxes under protest. The total disputed taxes provided to date amount to \$1,660,000 of which \$151,000 was provided in 1965.

**3. DEFERRED INCOME TAXES:**

The companies' policy is to provide for depreciation of fixed assets on the straight line method at annual rates which will amortize the cost of depreciable properties over their estimated service lives. Under Canadian and United States income tax regulations more depreciation may be deducted for tax purposes than the provision recorded in the accounts of the companies. The companies are taking advantage of the maximum deductions permitted for tax purposes which results in a deferral of taxes to future years when amounts deductible will be less than the depreciation recorded in the accounts. The amount of \$1,642,127 deferred for 1965 is shown separately under Provision for Income Taxes on the Consolidated Statement of Earnings. The cumulative total of \$27,419,127 deferred for 1965 and prior years is carried on the Consolidated Balance Sheet under the heading Deferred Income Taxes.

**4. DEFERRED INVESTMENT TAX CREDIT:**

The United States subsidiary companies are allowed a credit against income taxes payable of a specified percentage of the cost of certain depreciable assets acquired and placed into service subsequent to December 31, 1961. This investment tax credit has been deferred and is being taken into earnings over the life of the related assets. The net amount of \$121,354 deferred for 1965 is shown separately under Provision for Income Taxes on the Consolidated Statement of Earnings and the unamortized portion of \$1,662,219 at December 31, 1965 is shown on the Consolidated Balance Sheet under the heading Deferred Investment Tax Credit.

**5. CAPITAL STOCK:**

By-law number 23 of the company, approved at a special meeting of the shareholders July 15, 1964, authorized the company to petition the Parliament of Canada to pass a Special Act to subdivide each share of capital stock with a par value of \$5 into five shares with a par value of \$1, so that the authorized capital of the company shall be \$200,000,000 divided into 200,000,000 shares of par value \$1 each. The necessary Bill was introduced in 1964 but Parliament dissolved in 1965 before the Bill was passed. The company has filed a Petition and a new Bill to be introduced during the current session of Parliament to accomplish the proposed subdivision of share capital.

**6. FOREIGN EXCHANGE:**

United States dollar amounts included in the consolidated financial statements have been expressed in Canadian dollars on the following bases:

Current assets and liabilities—at the rate of exchange December 31;

Other assets and liabilities—at historical rates of exchange except for accumulated depreciation which is translated on the basis of equivalent Canadian dollar cost of the related fixed assets;

Income and expenses—at monthly rates of exchange except provision for depreciation which is translated on the same basis as the related fixed assets.

Net losses of \$430,301 arising from the foregoing methods are shown on the Consolidated Statement of Earnings as Loss on Foreign Exchange.

**7. RETIREMENT PLAN:**

Effective January 1, 1966, the company revised the Retirement Plan for its Canadian employees for both past and future service including integration with the Canada Pension Plan. Actuarial studies indicate that the liability for past service benefits to December 31, 1965 approximates \$800,000 and this will be amortized by charges to earnings over a 20-year period.

**8. REMUNERATION OF DIRECTORS:**

The total amount deducted on the Consolidated Statement of Earnings for remuneration paid to salaried and other directors was \$65,077.

INTERPROVINCIAL PIPE LINE COMPANY *and subsidiary companies*

TEN YEAR REVIEW

FINANCIAL (*in thousands of dollars*)

Revenues - - - - -	- - - - -
Expenses - - - - -	- - - - -
Income taxes - - - - -	- - - - -
Net earnings - - - - -	- - - - -
Net earnings per share - - - - -	- - - - -

Dividends paid - - - - -	- - - - -
Dividends paid per share - - - - -	- - - - -
Percentage of net earnings - - - - -	- - - - -

Working capital (deficit) - - - - -	- - - - -
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Capital additions to carrier system - - - - -	- - - - -
Investment in carrier system (cost) - - - - -	- - - - -
Investment in carrier system (net) - - - - -	- - - - -

Long term debt, less payments due within one year - - - - -	- - - - -
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Number of shares outstanding - - - - -	- - - - -
Number of shareholders - - - - -	- - - - -

OPERATING

RECEIPTS OF CRUDE OIL (*in thousands of barrels*)

Alberta - - - - -	- - - - -
Saskatchewan and Manitoba - - - - -	- - - - -
United States - - - - -	- - - - -
Total - - - - -	- - - - -

DELIVERIES OF CRUDE OIL (*in thousands of barrels*)

Western Canada - - - - -	- - - - -
United States - - - - -	- - - - -
Tanker loadings for Ontario - - - - -	- - - - -
Ontario - - - - -	- - - - -
Total - - - - -	- - - - -

BARREL MILES ( <i>millions</i> ) - - - - -	- - - - -
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1965	1964	1963	1962	1961	1960	1959	1958	1957	1956
\$ 80,292	74,983	69,999	66,570	59,227	55,162	56,097	49,910	41,930	42,569
\$ 34,798	32,998	31,013	27,914	25,729	24,347	24,059	23,970	22,370	22,745
\$ 25,157	22,783	21,206	20,977	17,402	15,335	16,434	12,844	9,596	9,650
\$ 20,337	19,202	17,780	17,679	16,096	15,480	15,604	13,096	9,964	10,174
\$ 4.00	3.77	3.50	3.48	3.17	3.05	3.08	2.59	1.97	2.01
\$ 17,551	16,787	15,755	15,491	14,705	14,184	11,389	9,103	7,075	5,548
\$ 3.45	3.30	3.10	3.05	2.90	2.80	2.25	1.80	1.40	1.10
86%	87%	89%	88%	91%	92%	73%	70%	71%	55%
\$ (11,949)	(18,572)	(16,057)	689	6,821	6,921	7,997	276	1,329	15,780
\$ 11,172	7,661	23,453	12,350	3,057	5,440	2,667	11,200	22,853	9,580
\$ 330,676	320,023	312,670	289,465	277,382	274,560	269,626	267,270	256,966	234,561
\$ 224,765	224,125	226,676	212,805	209,461	215,324	218,665	224,700	222,573	207,684
\$ 93,663	90,992	100,073	108,378	115,339	123,758	130,926	137,479	143,716	149,154
5,087,282	5,087,282	5,082,982	5,080,482	5,072,493	5,068,343	5,063,313	5,057,813	5,056,533	5,050,343
15,521	14,127	12,757	12,582	12,353	11,834	11,901	12,129	11,966	10,969
114,582	99,320	99,138	91,693	88,226	74,823	75,411	65,088	66,063	81,565
88,653	83,762	73,426	66,739	58,232	53,681	48,165	45,488	35,408	16,719
1,790	1,642	1,525	45	—	—	—	—	—	—
205,025	184,724	174,089	158,477	146,458	128,504	123,576	110,576	101,471	98,284
38,734	33,055	32,184	32,715	32,257	34,236	32,705	29,512	33,751	33,733
52,451	46,885	41,794	39,040	33,303	23,018	20,353	21,327	20,664	16,868
—	—	939	1,259	1,220	923	—	1,748	4,119	5,662
112,504	104,515	96,845	84,843	79,153	69,729	69,864	56,912	41,362	40,479
203,689	184,455	171,762	157,857	145,933	127,906	122,922	109,499	99,896	96,742
241,264	221,691	207,724	186,562	170,468	137,483	135,569	113,997	94,994	100,486

